

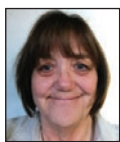
Budgets 101

by Lorraine Harris

As leaders in our programs, we are charged with setting policy: policy around curriculum, children, staff, and materials. At the heart of this is the budget. It turns out that your budget really is policy — there is no doubt about it. This concept rules our budgets — or should, anyway. Let me explain. If you believe your staff should have professional development, you have to pay for it somehow. (Or, you're forced to ask your staff to do so themselves.) If you believe your classrooms should feature a lot of art products, then you have to include them in your budget.



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The Importance of Understanding Program Finances

Many of us do not have or control the budgets we are responsible for monitoring. I am amazed at the number of owners who do not work with a budget. "I know what I have to spend and just spend it" is a phrase I hear more than you can imagine. My students in Singapore collect fees in the classrooms and, basically, principals spend petty cash to meet daily needs. Those of us who have access to and control over the budget have a role in determining what is important in our programs. So while I understand that some of you don't have access to your budgets, I believe that if you understand how budgets work and can speak budget language, you will have a chance at having an influence.

Many of my students who currently direct programs report that they were able to understand and contribute to the budget in a new way when they learned financial concepts. This includes a new sense of confidence. You can make suggestions and back them up with how

it could be funded, and that makes a difference.

It's important to remember that there is a difference between developing a budget and being an accountant. A budget is an educated guess at the funds you will need to run the kind of program you want to have. An accountant looks at the history of a budget, analyzing and presenting numbers that help you see what your actual costs are. Your accountant can advise you about some of the costs you have had in the past and you will need to make the decisions about where to allocate costs so you can make your policies real.

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Budget Basics

The budget basics are simple: Money comes in and money goes out. It's not

enough to just know that, and many people exclaim that they are “bad with numbers” or “can’t do math.” But as it turns out, most people can do numbers; they are simply lacking some of the tools that are a part of financial understanding.

Expenses

I am going to start with expenses because we need to know what we have to pay for before we know how much to charge. Once we know our expenses, we can look at our sources of income: parent fees or parent fees plus other types of income.

Line item budgets are the basic tool we use in our programs; they are also used by many small businesses. Child care programs are small businesses in many ways, and yet we have a variable that does not exist in most small business ventures: our staff costs are wildly out of sync with other budget items, taking up between 60 and 80 percent of our budgets. We also have the issue of revenue mainly coming from parent fees. So let’s walk through a line-item budget and what you should be thinking about as you put it together.

The operating budget of a center is typically put together in line-item form. That means the income and expenses must be captured in an organized way. Typically, in our budgets we have two categories of expenses: personnel and non-personnel. Not every budget that deals with personnel splits the budget this way. However, in our work this is helpful as a way to see the comparison between staff and non-staff costs. I like detail regarding personnel in my budget, so I list all the job positions.

Some employees receive benefits and some may not, so that has to be considered. For example, I have a line item for director, one for each of the other roles in the office, one for lead teachers,

one for teachers, and one for other staff who get benefits. There is another line item for staff members who do not receive benefits: those who are part time, consultants, and all the people you pay for service.

Benefits include all the mandatory requirements, such as the employer’s share of Social Security and worker’s compensation. It also includes optional items such as health insurance, vacation time, sick time, holidays, and disability. It is important to carefully think about what you can afford; the more generous your benefits, the easier it will be to recruit employees. However, these can cost you about 25 to 30 percent of the salary line. You can change that percentage by charging employees a portion of the cost.

A commonly under-budgeted item is substitute teachers. If you offer vacation and want to maintain ratios, you need subs. And, of course, teachers get sick. It is an expense that most of us do not include in our budgets, but we pay for it in staff morale — if not dollars.

Our non-personnel items include everything else, and I mean everything. Morgan and Emmanuel include a very handy guide in their book, as do others, so I will just try to capture the essence here. Essentially, it is useful to gather your information in categories and then decide how much to break out those categories.

Occupancy is your next biggest expense after personnel. It includes whatever you pay to be in and stay in (occupy) your building. This includes mortgage or rent, utilities, and repairs and maintenance. It also includes any insurance you carry for the building and depreciation for the building itself. Depreciation is the reduction in value of an asset over time. You will need the help of a professional accountant to determine depreciation for buildings and all other assets.

Supplies are a large part of our program, but a small portion of our budgets. Supplies include everything you need for teaching and caregiving. These include art supplies, materials for the classrooms, and whatever you supply for caregiving: diapers, wipes, and similar items. It also includes food supplies and kitchen supplies, cleaning supplies, supplies to run the office, and supplies you need for first aid. I like to keep my consumables — things we use up quickly and have to replace — separate from the other supplies. Two items I have in that category are gloves and art supplies. You don’t have to split this out; I just have that preference.

We also have furniture, equipment, and some of us have vehicles. Consider your equipment and furniture needs for your office, the kitchen, the classrooms, and laundry facilities. You will also have to maintain these items and fix them, so repairs and maintenance are needed in this category as well.

If you maintain a vehicle, you have to include maintenance and equipment costs, as well as the insurance you are required to have. My experience tells me that most programs maintain \$1 million in liability insurance for each vehicle.

Professional development is also an under-budgeted item in a lot of programs. Here you include funds for the courses and training, as well as any conferences you want your staff to attend. Conference attendance can include all the accommodations, meals, and the travel or employees can pay a part of their way.

Additional expenses to consider are advertising, phone, technology, licenses, and bank charges. These costs will vary between programs; I have to pay for snow plowing, while someone in a warmer climate doesn’t have to include that item.

Expense Categories

Once you have listed all categories of expenses, your next step is to organize them and decide what you want to group together. You want your budget to be useful, so combine expenses within categories. For example, you can include the repairs and maintenance for your building and your materials in one line item. All consumable materials can be combined in one line and classroom supplies can be listed separately. Your budget doesn't have to — and shouldn't — look exactly like someone else's; it needs to reflect what *you* are doing in your program in a way *you* understand.

Income

Income describes all the money you have coming into your program. Usually the biggest income comes from parent fees. You may also receive subsidy payments from the government and other organizations. You may charge a fee for registration. You may also receive money from the USDA Food Program and you may also have grants to support your program. Your income must cover your expenses.

Let's talk about parent fees. This is a very touchy subject for most of us in early childhood programs because we see how hard it is for families to pay for the services we provide. We don't want to over charge parents, yet asking our staff to accept low wages is not the answer either. One answer is to consider a sliding-fee scale that asks families to pay based on their income... but that is a whole other article! Suffice it to say that there are many variables that factor into the decision that only you can make about how much to charge families for your services.

Developing and monitoring a budget for your program takes planning,

insight, and, yes, some basic math skills. As with anything, when you understand the importance of each aspect of running a program, you develop the skills necessary to do it well. Those who control the budget establish the program's priorities; in other words, what is important in our programs? When you understand how budgets work and can speak budget language, you can exert influence over the process and direct the future of your program.

Reference

Morgan, G., & Emmanuel, B. (2010). *The bottom line for children's programs: What you need to know to manage the money* (5th edition). Watertown, MA: Steam Press.

